

Financial Statements
Livingston County Community
Mental Health Authority

Howell, Michigan

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Livingston County Community Mental Health	County Livingston
Fiscal Year End 9-30-2006	Opinion Date 1-18-2007	Date Audit Report Submitted to State 3-29-2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

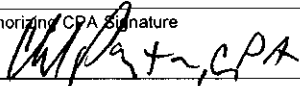
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Zip 48801			
Authorizing CPA Signature 		Printed Name CHAD R. PAYTON, CPA	License Number 21946

Livingston County Community Mental Health Authority
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INDEPENDENT AUDITOR'S REPORT

Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Livingston County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

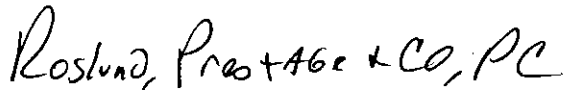
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2006, and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2007 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2007

MANAGEMENT'S DISCUSSION and ANALYSIS

Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

The management of Livingston County Community Mental Health Authority (LCCMHA) presents the following overview and analysis of financial activities during the past fiscal year. LCCMHA was created as a Mental Health Authority effective October 1, 1998.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of LCCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. LCCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. LCCMHA funds include the General Fund and the Children's Pooled Funding Initiative Fund. Both of these funds are considered "Governmental Funds".

Governmental funds have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis**

Comparison with Prior Year

Fiscal year 2005 revenues and expenses compared to fiscal year 2006 follows:

	2005	2006	\$ Change	% Change
General Fund				
Revenues	\$17,367,981	\$18,120,321	\$752,340	4.3%
Expenses	16,979,656	18,087,913	1,108,257	6.5%
Children's Pooled Funding Initiative Fund				
Revenues	168,381	177,453	9,072	5.4%
Expenses	292,133	265,697	(26,436)	(9.0%)

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance at 10-1-2005	Increase (Decrease)	Balance at 9-30-06
General Fund Balance			
Reserved	\$426,865	(\$189,480)	\$237,385
Unreserved	2,050,823	(52,267)	1,998,556
Children's Pooled Funding Initiative Fund Balance			
Restricted	497,150	(12,056)	485,094
Totals	\$2,974,838	(\$253,803)	\$2,721,035

The general fund unreserved fund balance decreased 2.5% and reserved fund balance decreased 44.4%. The majority of the substantial decrease in reserved fund balance is because monthly operating advances extended to group homes were refunded to LCCMHA as of September 30, 2006.

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis**

About Fiscal Year 2006

Livingston Community Mental Health Authority (LCCMHA) is part of a four-county affiliation, known as the Community Mental Health Partnership of Southeast Michigan. The Partnership members consist of Lenawee, Livingston, Monroe and Washtenaw counties. While LCCMHA receives Medicaid dollars through a Prepaid Inpatient Health Plan (PIHP) configuration, General Fund operations continue to flow directly to LCCMHA.

The four-county affiliation has implemented a web-based electronic record, encounter, and electronic billing centralized computer system. This systems has created efficiency and uniformity in clinical recording keeping. The system is continuously updated to improve its effectiveness.

Livingston closed the year using state general fund in the support of Medicaid consumers since the affiliation exceeded the Medicaid available. Livingston continues to review direct operated and contract services to seek the best value to consumers. This fiscal year Livingston closed a program that served older adults with a mental illness. The program, while very popular with consumers, was not cost effective. The consumers served by the program were transitioned to contract providers and other community programs.

The affiliate members, through work groups, strive to improve service delivery, assure that uniform policies are in place to meet regulatory requirements and monitor cost of services to improve efficiencies.

About the Future

The State of Michigan is projecting a budget shortfall for Fiscal Year 2006-2007. There is some uncertainty in the current funding levels. A Funding Equity Group is attempting to develop methods to distribute the General Fund to Boards, which may decrease our current funding. Livingston is struggling to make budget cuts in this fiscal year that do not adversely affect the priority populations. On a positive note, the State provided a modest increase to the Medicaid funding.

The Community Mental Health system, with its roots in the community it serves, is uniquely qualified to provide effective services to the people in its community. With the affiliation structure currently in place, and with the continuous process of improvement, each CMHSP within our affiliation has strengthened its ability to provide effective cost competitive service that meets the regulatory requirements, and the needs of the community.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Livingston County Community Mental Health Authority
Statement of Net Assets
September 30, 2006 and 2005

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash and cash equivalents	\$3,715,063	\$3,343,505
Accounts receivable, net	92,964	11,475
Due from other governmental units	259,332	1,406,226
Prepaid items	237,385	426,865
Total current assets	<u>4,304,744</u>	<u>5,188,071</u>
Noncurrent assets		
Capital assets - depreciable, net	<u>1,155,076</u>	<u>1,006,413</u>
Total assets	<u>5,459,820</u>	<u>6,194,484</u>
Liabilities		
Current liabilities		
Accounts payable	1,068,530	1,197,197
Deferred revenue	336,363	354,349
Due to other governmental units	72,372	479,846
Accrued wages and other payroll liabilities	106,444	181,841
Current portion of long term debt	9,560	10,677
Total current liabilities	<u>1,593,269</u>	<u>2,223,910</u>
Noncurrent liabilities		
Notes payable	1,654	11,214
Compensated absences	<u>180,877</u>	<u>180,493</u>
Total noncurrent liabilities	<u>182,531</u>	<u>191,707</u>
Total liabilities	<u>1,775,800</u>	<u>2,415,617</u>
Net Assets		
Invested in capital assets, net of related debt	1,143,862	984,522
Restricted for grant	485,094	497,150
Unrestricted	<u>2,055,064</u>	<u>2,297,195</u>
Total net assets	<u>\$3,684,020</u>	<u>\$3,778,867</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Activities

For the year ended September 30, 2006, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$18,206,168</u>	<u>\$12,659,991</u>	<u>\$5,516,307</u>	(\$29,870)	\$50,825
General revenues					
Unrestricted investment earnings				<u>121,476</u>	<u>61,479</u>
Total general revenues and contributions				<u>121,476</u>	<u>61,479</u>
Change in net assets				91,606	112,304
Net assets - beginning of year				3,778,867	3,659,767
Prior period adjustment				<u>(186,453)</u>	<u>6,796</u>
Net assets - end of year				<u>\$3,684,020</u>	<u>\$3,778,867</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2006, With Comparative Data

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2005
Assets				
Cash and cash equivalents	\$3,215,801	\$499,262	\$3,715,063	\$3,343,505
Accounts receivable, net	92,964	-	92,964	11,475
Due from other governmental units	259,332	-	259,332	1,406,226
Prepaid items	237,385	-	237,385	426,865
Total assets	<u>\$3,805,482</u>	<u>\$499,262</u>	<u>\$4,304,744</u>	<u>\$5,188,071</u>
Liabilities				
Accounts payable	\$1,054,362	\$14,168	\$1,068,530	\$1,197,197
Deferred revenue	336,363	-	336,363	354,349
Due to other governmental units	72,372	-	72,372	479,846
Accrued wages and other payroll liabilities	106,444	-	106,444	181,841
Total liabilities	<u>1,569,541</u>	<u>14,168</u>	<u>1,583,709</u>	<u>2,213,233</u>
Fund balances				
Restricted for grant	-	485,094	485,094	497,150
Reserved for prepaid items	237,385	-	237,385	426,865
Unreserved	1,998,556	-	1,998,556	2,050,823
Total fund balances	<u>2,235,941</u>	<u>485,094</u>	<u>2,721,035</u>	<u>2,974,838</u>
Total liabilities and fund balances	<u>\$3,805,482</u>	<u>\$499,262</u>	<u>\$4,304,744</u>	<u>\$5,188,071</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 To Net Assets of Governmental Activities on the Statement of Net Assets
 For the year ended September 30, 2006

Total fund balance - governmental funds	\$2,721,035
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,945,970
Deduct: accumulated depreciation	(790,894)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: note payable	(11,214)
Deduct: compensated absences	(180,877)
Net assets of governmental activities	<u>\$3,684,020</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2006, With Comparative Data

	MAJOR FUNDS		
	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds 2005
REVENUES			
State grants			
MDCH - General fund contract	\$4,306,202	-	\$4,306,202
Other state grants	69,076	-	69,076
Total state grants	4,375,278	-	4,375,278
Federal grants	479,458	-	479,458
Contributions - local units			
County appropriations	600,471	-	600,471
Charges for services			
Medicaid - Washtenaw CMH	11,919,804	-	11,919,804
Medicaid - other	162,148	-	162,148
Other charges for services	420,039	\$158,000	578,039
Total charges for services	12,501,991	158,000	12,659,991
Interest and rents			
Interest	102,023	19,453	121,476
Rents	6,504	-	6,504
Total interest and rents	108,527	19,453	127,980
Other revenue			
Miscellaneous	54,596	-	54,596
Total revenues	18,120,321	177,453	18,297,774
			17,536,362

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2006, With Comparative Data

	MAJOR FUNDS		
	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds 2005
EXPENDITURES			
Health & Welfare - Mental Health			
Personnel costs	\$7,252,613	\$157,707	\$7,410,320
Operating expenditures	10,592,017	107,990	10,700,007
Capital outlay	243,283	-	243,283
Total expenditures	18,087,913	265,697	18,353,610
Revenues over (under) expenditures	32,408	(88,244)	(55,836)
Other financing sources (uses)			
Operating transfers in	168,492	244,680	413,172
Operating transfers out	(244,680)	(168,492)	(413,172)
Debt payments	(11,514)	-	(11,514)
Total other financing sources (uses)	(87,702)	76,188	(11,514)
Excess of revenues and other sources over expenditures and other uses	(55,294)	(12,056)	(67,350)
Fund balance, beginning of year	2,477,688	497,150	2,974,838
Prior period adjustment	(186,453)	-	(186,453)
Fund balance, end of year	\$2,235,941	\$485,094	\$2,721,035
			\$2,974,838

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended September 30, 2006

Net change in fund balances - total governmental funds (567,350)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay

243,283

Deduct: depreciation expense

(94,620)

Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add: principal payments on long term debt

10,677

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrual for compensated absences

(384)

Change in net assets of governmental activities

91,606

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Livingston County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Livingston County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Livingston County Community Mental Health Authority
Notes to Financial Statements

The Authority reports the following major governmental funds:

General Fund - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children's Pooled Funding Initiative Fund - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Livingston County.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from Washtenaw Community Mental Health.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	N/A
Buildings and Improvements	10 – 27
Equipment	5 – 10
Furniture and Fixtures	15
Computers	5
Automobiles	4

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Risk Management are examples of the latter.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are examples of the latter.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Livingston County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through the Community Mental Health Partnership of Southeast Michigan for Medicaid-qualified services rendered to residents of Livingston County. The Community Mental Health Partnership of Southeast Michigan contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Authority did not incur any expenditure in excess of the amounts appropriated.

Livingston County Community Mental Health Authority
Notes to Financial Statements

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Authority's cash and cash equivalents are as follows:

	2006	2005
Cash deposits	\$1,715,063	\$3,343,505
Certificates of deposit	2,000,000	-
Totals	\$3,715,063	\$3,343,505

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2006, the carrying amount of the Authority's deposits was \$3,715,063, and the bank balance was \$4,293,091. Of the bank balance, \$200,000 was covered by federal depository insurance and \$4,093,091 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2006	2005
State of Michigan – Medicaid	-	\$94,328
Various Federal Grants	\$6,014	76,647
Washtenaw CMH	150,510	1,171,049
CEI CMH	12,956	4,531
Other Governmental Units	89,852	59,671
Totals	\$259,332	\$1,406,226

Changes in Fixed Assets

A summary of changes in the general fixed assets account group is as follows:

Assets	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$115,000	\$71,400	-	\$186,400
Buildings and Improvements	977,374	31,716	-	1,009,090
Equipment	121,819	140,167	-	261,986
Furniture and Fixtures	48,910	-	-	48,910
Computers	259,420	-	-	259,420
Automobiles	180,164	-	-	180,164
Sub-totals	1,702,687	243,283	-	1,945,970
Accumulated Depreciation	(696,274)	(94,620)	-	(790,894)
Totals	\$1,006,413	\$148,663	-	\$1,155,076

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Livingston County Community Mental Health Authority
Notes to Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2006	2005
DCH – Cost Settlement	-	\$423,450
Michigan Employment Security Commission	\$71,118	55,396
Other Governmental Units	1,254	1,000
Totals	\$72,372	\$479,846

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Deferred Revenue

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Long-Term Liabilities – Compensated Absences

Authority policy allows full time employees to accumulate "paid time off" at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment. As of September 30, 2006 and 2005, this liability was \$180,877 and \$180,493, respectively.

Long-Term Debt – Vehicle Loans

The Authority entered into an installment contract for the purchase of a vehicle during the 2003 fiscal year. Payments are due monthly in the amount of \$558.73, including interest at the rate of 0% per annum. As of September 30, 2006, the balance of this installment contract is \$5,588.

The Authority entered into an installment contract for the purchase of a vehicle during the 2004 fiscal year. Payments are due monthly in the amount of \$400.67, including interest at the rate of 9.5% per annum. As of September 30, 2006, the balance of this installment contract is \$5,626.

Livingston County Community Mental Health Authority
Notes to Financial Statements

The annual installments to pay principal and interest on obligations outstanding at September 30, 2006 are as follows, including total interest payments of \$1,185:

Year Ended September 30,	Amount
2007	\$10,396
2008	2,003
2009	-

Below are the changes in the general long-term debt during the September 30, 2006 fiscal year:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$180,493	\$384	-	\$180,877
Vehicle Installment Contracts	21,891	-	\$10,677	11,214
Totals	\$202,384	\$384	\$10,677	\$192,091

Operating Leases

Livingston County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2007	\$196,216
2008	202,441
2009	203,291
2010	203,856
2011	204,106
2012-2016	1,021,706
2017-2021	1,016,346
2022-2026	603,556

Livingston County Community Mental Health Authority
Notes to Financial Statements

Retirement Systems

MERS

Plan Description

The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2005. The Authority's payroll for the employees covered by the system for the year ended December 31, 2005 was \$4,734,889.

Funding Policy

Under the provisions of the plan, employees contribute 5% of annual compensation. The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2006, employer contributions to this retirement plan was \$446,155.

For the 2006 fiscal year, employer contributions were at a rate of 9.4% of eligible employee wages.

Livingston County Community Mental Health Authority
Notes to Financial Statements

At December 31, 2005, the pension benefit obligation was more than the assets by \$955,334, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$1,386,422
Terminated employees not yet receiving benefits	1,048,263
Non-vested terminated employees (pending refunds of accumulated member contributions)	0
Current Employees:	
Accumulated employee contributions including allocated investment income	12,688
Employer financed	6,446,756
Total actuarial accrued liability	8,894,129
Net assets available for benefits at actuarial value (market = \$7,729,601)	7,938,795
Unfunded (over funded) actuarial accrued liability	\$955,334
GASB 27 Information	
Fiscal Year Beginning	October 1, 2007
Annual Required Contribution (ARC)	\$421,404
Amortization factor used – under-funded liabilities (30 years)	.053632

Three year trend information as of December 31 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-03	6,335,494	7,504,178	1,168,684	26%
12-31-04	7,135,864	8,132,652	996,788	21%
12-31-05	7,938,795	8,894,129	955,334	20%

Livingston County Community Mental Health Authority
Notes to Financial Statements

Money Purchase Pension Plan

Plan Description

Effective January 1, 1999, the Authority voted to join an optional retirement plan instead of the Social Security system. All employees of the Authority are eligible to participate in this Plan. Nationwide Life Insurance Company is the firm used to invest plan funds.

Funding Policy

All employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 5.69% of compensation. Under this plan, employees are immediately 100% vested in their account.

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

MMRMA's coverage limits are between \$0 and \$5,000,000 for liability, and between \$10,000 and \$200,000,000 for property and crime.

Livingston County Community Mental Health Authority
Notes to Financial Statements

The contribution made by the Authority to the MMRMA was \$44,631 for the period October 1, 2006 to October 1, 2007.

Prior Period Adjustment

The following transactions are recognized in these financial statements as prior period adjustments:

Description	2006	2005
Adjustment to prior year cost settlement document filed with the Michigan Department of Community Health	(\$186,453)	\$6,796
Totals	(\$186,453)	\$6,796

Subsequent Event

During the fiscal year the Authority purchased real estate with the intention to build a new group home. Building of the new home will begin after year-end using available liquid resources.

OTHER SUPPLEMENTAL INFORMATION

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2006

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
State Grants				
MDCH - General fund contract	\$4,492,448	\$4,287,027	\$4,306,202	19,175
Other state grants	66,298	67,498	69,076	\$1,578
Total state grants	4,558,746	4,354,525	4,375,278	20,753
Federal grants	480,600	480,000	479,458	(542)
Contributions - local units				
County appropriations	600,471	600,471	600,471	-
Charges for services				
Medicaid - Washtenaw CMH	11,824,992	11,939,266	11,919,804	(19,462)
Medicaid - other	162,148	162,148	162,148	-
Other charges for services	421,250	419,959	420,039	80
Total charges for services	12,408,390	12,521,373	12,501,991	(19,382)
Interest and rents				
Interest	95,657	101,300	102,023	723
Rents	6,504	6,504	6,504	-
Total interest and rents	102,161	107,804	108,527	723
Other revenue				
Miscellaneous revenues	55,600	54,930	54,596	(334)
Total other revenue	55,600	54,930	54,596	(334)
Total revenues	18,205,968	18,119,103	18,120,321	1,218

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2006

	Budgeted Amounts		Variance Between Actual and Final Budget
	Original	Final	
Expenditures			
Health & Welfare - Mental Health			
Personnel costs	\$7,309,668	\$7,258,150	\$5,537
Operating expenditures	10,603,072	10,602,071	10,054
Capital outlay	244,000	244,000	717
Total expenditures	18,156,740	18,104,221	16,308
Revenues over (under) expenditures	49,228	14,882	17,526
Other financing sources (uses)			
Operating transfers in	166,350	166,350	2,142
Operating transfers out	(244,680)	(244,680)	-
Debt payments	(11,514)	(11,514)	-
Total other financing sources (uses)	(89,844)	(89,844)	2,142
Excess of revenues and other sources over expenditures and other uses	(40,616)	(74,962)	19,668
Fund balance, beginning of year	2,477,688	2,477,688	-
Prior period adjustment	-	-	(186,453)
Fund balance, end of year	\$2,437,072	\$2,402,726	(\$166,785)

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
Children's Pooled Funding Initiative
For the year ended September 30, 2006

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
Charges for services				
Local revenue	\$158,000	\$158,000	\$158,000	-
Total charges for services	158,000	158,000	158,000	-
Interest and rents				
Interest	10,860	16,290	19,453	\$3,163
Total revenues	168,860	174,290	177,453	3,163
Expenditures				
Health & Welfare - Mental Health				
Personnel costs	158,650	158,250	157,707	543
Operating expenditures	108,950	108,150	107,990	160
Capital outlay	-	-	-	-
Total expenditures	267,600	266,400	265,697	703
Revenues over (under) expenditures	(98,740)	(92,110)	(88,244)	3,866
Other financing sources (uses)				
Operating transfers in	244,680	244,680	244,680	-
Operating transfers out	(173,493)	(171,650)	(168,492)	3,158
Total other financing sources (uses)	71,187	73,030	76,188	3,158
Excess of revenues and other sources over expenditures and other uses	(27,553)	(19,080)	(12,056)	7,024
Fund balance, beginning of year	497,150	497,150	497,150	-
Fund balance, end of year	\$469,597	\$478,070	\$485,094	\$7,024

See Accompanying Notes To Financial Statements

REQUIRED SUPPLEMENTAL INFORMATION

Livingston County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the years ended September 30, 2006 and 2005

Governmental Fund Types

	<u>General Fund</u>	
	<u>2006</u>	<u>2005</u>
Personnel costs		
Salaries and wages	\$5,366,574	\$5,272,860
Fringe benefits	<u>1,886,039</u>	<u>1,821,899</u>
 Total personnel costs	 <u><u>\$7,252,613</u></u>	 <u><u>\$7,094,759</u></u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the years ended September 30, 2006 and 2005

<u>Governmental Fund Types</u>		
	<u>General Fund</u>	
	<u>2006</u>	<u>2005</u>
Operating Expenditures		
Professional and contracted services	\$3,921,899	\$3,412,006
Client medical / dental	43,116	20,478
Client supplies	76,873	71,694
Communications	97,854	139,700
Conferences	80,294	113,457
Insurance	45,986	69,982
Lease expense and utilities	658,734	681,755
Local funds contribution	251,232	251,232
Medication	65,352	90,768
Membership dues	11,411	9,977
Operating supplies and other	159,659	173,055
Repairs and maintenance	129,691	202,934
Residential services	4,775,811	4,380,627
Transportation	101,423	86,082
Travel	172,682	173,585
	<u> </u>	<u> </u>
Total operating expenditures	<u>\$10,592,017</u>	<u>\$9,877,332</u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Livingston County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

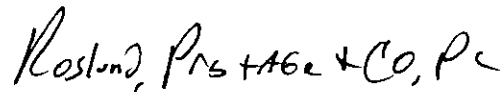
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 18, 2007.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.


Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2007



MANAGEMENT LETTER

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

In planning and performing our audit of the financial statements for Livingston County Community Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 18, 2007 on the financial statements of Livingston County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail, perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 18, 2007

Provide Health Savings Accounts

Due to increasing costs of providing health insurance to the Authority's employees, we believe the Authority could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,100 for single coverage and \$2,200 for family coverage. The contribution is limited to \$2,850 for single coverage or \$5,650 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The Authority may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

Journal Entries

During our audit, we found that general journal entries are being prepared, processed and approved by the same individual. We recommend the Authority adopt a policy where all general journal entries require an approval by management independent of the preparer. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Additionally, all journal entries should be accompanied by a full explanation and by references to adequate supporting data.